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26 JUL 1989

MEMORANDUM FOR THE RECORD

FROM;

OP/RD/RIB

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SUBJECT: Oversight Hearing on the Federal Retirement Thrift Investment Board and H.R. 2514

1. The hearing commenced at 10:45 am on Tuesday, July 25, 1989 in Room 311 of the Cannon Building. The Chairman of the Subcommittee on Compensation and Employee Benefits, Congressman Gary Ackerman, began the hearing by welcoming the witnesses (see attached) and Congresswoman Connie Morella. The other subcommittee members were not present.

2. Each witness read a summarized version of the statements which are attached to this document. The following, however, are major themes which appeared throughout the testimony.

- Introduction of HR 2514
  - Give agencies the authority to reinstate lost earnings on TSP accounts as a result of admin error
  - Remove the restrictions on contributing to the F and C funds.
- FERS TSP Participation Rates
  - All witnesses felt (except for Frank Cavanaugh) that the Thrift Board should take a more "active" role in encouraging TSP participation by FERS employees.

Frank Cavanaugh, Executive Director of the Thrift Board, feels that by statute, the Thrift Board cannot cross the fine line between educating federal employees on TSP and advising them of what they should and/or should not contribute to TSP. 'We are not an investment firm'.

There was great concern regarding the varying participation rates within an agency. For example, at the Department of Treasury, participation rates varied from thirty-three to seventy-three percent. Although GAO attributed the variation to "significant differences in the way the plan is administered", Frank Cavanaugh attributed the differences to age and/or salary within the components of each department. Statistics are provided, by the Thrift Board, to each department head regarding overall participation rates and a breakdown by component.

- TSP Administrative Expenses

- Frank Cavanaugh reported that TSP admin costs were approximately \$16 million for FY89 (\$8m for recordkeeping/system expenses, \$3.5 m for salaries/contracts, and \$4.5m for printing).

- Frank stated that next year the Thrift Board will be reviewing its contracts with NFC and Wells Fargo to determine if they should be renewed or whether the Thrift Board should contract with different vendor(s).

- Discrimination Issue

Chairman Ackerman brought up an issue which "surprised" the witnesses. That is, are there any companies or subsidiaries in the S&P 500 Index which discriminate in their business practices (e.g., South African companies)? Ackerman wants this issue researched. If there are any companies that fall in this category, he wants them deleted from TSP C fund portfolio. Ackerman sees a conflict if TSP participants are "indirectly" investing their money and eventually government contributions with these companies.

3. The hearing ended at 1:55 pm.

Observations

- There was not much discussion regarding the legislation. I got the distinct impression that since Congressman Ackerman introduced HR2514 to the House and all witnesses stated that they supported the legislation, that it will be approved by the House. We have not heard anything on this legislation from the Senate.

- Many people present at the hearing expressed surprise by the length of questioning regarding participation rates and the discrimination issue. If appropriate, Congressman Ackerman may amend the bill further to include these issues.